
FISCAL UPDATE Article

Fiscal Services Division

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END OF SESSION — SF 512 — WATER QUALITY

Water Quality Act. [Senate File 512](#) (Water Quality Act) exempts the sale of water by utilities from the State sales tax and creates a Water Service Excise Tax on metered water. Revenues from the tax are deposited in the General Fund. These funds are then transferred incrementally as follows:

- FY 2019: A total of one-sixth of the tax will be transferred from the General Fund, with half of the funding distributed to the Water Quality Infrastructure Fund and half to the Water Quality Financial Assistance Fund.
- FY 2020: A total of one-third of the tax will be transferred from the General Fund, with half of the funding distributed to the Water Quality Infrastructure Fund and half to the Water Quality Financial Assistance Fund.
- FY 2021: A total of one-half of the tax will be transferred from the General Fund to the Water Quality Financial Assistance Fund. This will happen each fiscal year through FY 2029.
- The tax is repealed on July 1, 2029, or when the State sales tax is increased.

Water Quality Infrastructure Fund. For FY 2019 through FY 2020, funding will be allocated from the Water Service Excise Tax to the Water Quality Infrastructure Fund as described above. Beginning in FY 2021, the Water Quality Infrastructure Fund will be credited \$15.0 million per year from wagering tax receipts that are currently paying off Vision Iowa bonds. The wagering tax receipts deposit is repealed July 1, 2029, or if the State sales tax is increased. The Division of Soil Conservation and Water Quality of the Department of Agriculture and Land Stewardship (DALs) will administer the Fund and can use up to 4.0% of the Fund for administration. The Fund is repealed after all moneys have been expended.

Water Quality Financial Assistance Fund. The Act creates the Water Quality Financial Assistance Fund in the State Treasury and appropriates moneys from the Water Service Excise Tax to the Fund. For FY 2019 through FY 2030, funds will be appropriated annually as follows:

- 40.0% to the Iowa Finance Authority (IFA) for the Wastewater and Drinking Water Treatment Financial Assistance Program. The IFA will administer the Program, which consists of appropriations, interest, and other funds. The Program will be expanded to include drinking water treatment and source water protection projects.
- 45.0% to the IFA for the Water Quality Financing Program, which funds projects to improve the quality of surface water and groundwater. This is a loan program, and the IFA will set the loan interest rates and charge fees to pay for the costs of processing loans. The IFA is required to submit an annual report to the Governor and the General Assembly beginning October 1, 2018, detailing the expenditures of the previous year.
- 15.0% to the Division of Soil Conservation and Water Quality of the DALs for the Water Quality Urban Infrastructure Program to fund demonstration projects that decrease erosion and storm water discharge, and other related projects. The projects will be funded on a cost-share basis.

Fiscal Impact. Table 1 below summarizes the funding to the Water Quality Infrastructure Fund and the Water Quality Financial Assistance Fund.

Net Impact of SF 512 Table 1 (in millions)						
	General Fund	SAVE*	LOST**	Rebuild Iowa Infrastructure Fund	Water Quality Infrastructure Fund	Water Quality Financial Assistance Fund
FY 2019	\$ 0.0	\$ -3.9	\$ -3.0	\$ 0.0	\$ 2.0	\$ 2.0
FY 2020	-4.0	-4.0	-3.0	0.0	4.0	4.0
FY 2021	-8.2	-4.1	-3.1	-15.0	15.0	12.3
FY 2022	-8.4	-4.2	-3.2	-15.0	15.0	12.6
FY 2023	-8.6	-4.3	-3.3	-15.0	15.0	13.0
FY 2024	-8.9	-4.4	-3.4	-15.0	15.0	13.3
FY 2025	-9.1	-4.5	-3.5	-15.0	15.0	13.6
FY 2026	-9.3	-4.7	-3.5	-15.0	15.0	14.0
FY 2027	-9.6	-4.8	-3.6	-15.0	15.0	14.4
FY 2028	-9.9	-4.9	-3.7	-15.0	15.0	14.8
FY 2029	-10.1	-5.1	-3.9	-15.0	15.0	15.2
FY 2030	-26.1	-5.2	-4.0	0.0	0.0	0.0

*SAVE = Secure an Advanced Vision for Education Program

**LOST = Local Option Sales Tax

Additional Changes. [House File 2440](#) (Water Quality Program Technical Corrections Bill) was passed by the General Assembly on May 5, 2018. The Bill made some technical corrections to [SF 512](#). Corrections include adding a requirement for an annual report that details expenditures for the Wastewater and Drinking Water Treatment Financial Assistance Program, the Water Quality Financing Program, the Urban Infrastructure Program, and the Water Quality Agriculture Infrastructure Program. The first report must be submitted by October 1, 2019, to the Governor and the General Assembly.

Enactment Date. This Act was approved by the General Assembly on January 23, 2018, and signed by the Governor on January 31, 2018. The Act takes effect on July 1, 2018.

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